LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7393 | **NOTE PREPARED:** Jan 9, 2007
BILL NUMBER: HB 1394 | **BILL AMENDED:**

SUBJECT: Public Employees' Retirement Fund Benefits.

FIRST AUTHOR: Rep. Buell | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **X** **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill:

(1) reduces from 10 to 8 the number of years of creditable service a member of the Public Employees' Retirement Fund (PERF) must earn to obtain vested status;
(2) reduces from 20 to 12 the number of calendar quarters used in the computation of the "average of the annual compensation" for a PERF member;
(3) allows a PERF employer to elect to increase from 1.1% to 1.67% the multiplier used by the employer's PERF members who retire after the date the election is effective to calculate the pension portion of the retirement benefit for creditable service earned after the date the election is effective; and
(4) requires an employer that first becomes a participant in PERF after June 30, 2008, to use the 1.67% multiplier.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Summary - Required Provisions:* This bill requires a reduction in vesting period from 10 to 8 years for members of PERF. It also requires a reduction from 20 to 12 the number of quarters used in the average salary computation. These required provisions will increase annual state expenditures by an estimated $12.678 M per year with a combined increase in unfunded accrued liability of $90.680 M.

Summary - Optional Provisions: The bill also allows the state to increase the multiplier for PERF members from 1.1% to 1.67%. If the state elects to increase the multiplier, annual funding would increase by $40.730 M (in addition to the increases associated with the required provisions). There would also be an additional increase in unfunded accrued liability of $285.403 M.

The funds affected are the state General Fund (55%) and various dedicated funds (45%). This percentage split represents the split for personal services in the state budget.

Background Information: (1) Reducing from 10 to 8 the number of years of creditable service a member must earn to obtain vested status will mean an increase in annual expenditures as shown in the table below. This provision is required by the bill.

	State	Municipalities	Total
Increase (Decrease) in Unfunded Accrued Liability	($1.013 M)	$1.108 M	$0.095 M
Increase in Annual Cost (Funding)	$1.619 M	$3.746 M	$5.365 M
Increase in Annual Cost as % of Pay	0.102%	0.145%	0.129%

(2) Reducing from 20 to 12 the number of calendar quarters used in the computation of the "average of the annual compensation" will mean an increase in annual expenditures as shown in the following table. This provision is required by the bill.

	State	Municipalities	Total
Increase in Unfunded Accrued Liability	$91.693 M	$126.919 M	$218.612 M
Increase in Annual Cost (Funding)	$11.059 M	$16.080 M	$27.140 M
Increase in Annual Cost as % of Pay	0.697%	0.623%	0.651%

(3) Allowing a PERF employer to elect to increase from 1.1% to 1.67% the multiplier used by the employer's PERF members to calculate the pension portion of the retirement benefit for creditable service earned after the date the election is effective will mean an increase in annual expenditures as shown in the following table. However, this provision is optional to the state and local units.

	State	Municipalities	Total
Increase in Unfunded Accrued Liability	$285.403 M	$423.612 M	$709.016 M
Increase in Annual Cost (Funding)	$40.730 M	$63.534 M	$104.263 M
Increase in Annual Cost as % of Pay	2.57%	2.46%	2.5%

<u>Explanation of State Revenues:</u>

<u>Explanation of Local Expenditures:</u> *Summary - Required Provisions:* This bill requires a reduction in vesting period from 10 to 8 years. It also requires a reduction from 20 to 12 the number of quarters used in the average salary computation. These two required provisions are estimated to increase annual funding required by municipalities by $19.826 M with a combined increase in unfunded accrued liability of $128.027 M.

Summary - Optional Provisions: The bill also allows the municipalities to increase the multiplier for PERF members from 1.1% to 1.67%. If all units were to elect to increase the multiplier, annual funding would increase by $63.534 M (in addition to the amounts associated with the required provisions). There would also be an additional increase in unfunded accrued liability of $423.612 M.

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund.

Local Agencies Affected: Local units with members in Public Employees' Retirement Fund.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Funding–Funding is a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.